

FISMA
SONOMA STATE UNIVERSITY

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ABBREVIATIONS

CSU	California State University
FIRMS	Financial Information Record Management System
FISMA	Financial Integrity State Manager's Accountability Act
FRS	Financial Reporting System
GAAP	Generally Accepted Accounting Principles
IT	Information Technology
PO	Purchase Order
SAM	State Administrative Manual
SCO	State Controller's Office
SUAM	State University Administrative Manual

INTRODUCTION

PURPOSE

The principal audit objective was to assess the adequacy of controls and systems that assure that:

- ▶ cash receipts are processed in accordance with laws, regulations and management's policy;
- ▶ receivables are promptly recognized and balances are periodically evaluated;
- ▶ purchases are made in accordance with laws, regulations and management's policy;
- ▶ revolving fund disbursements are authorized and processed in accordance with laws, regulations, and management's policy;
- ▶ cash disbursements are properly authorized and are made in accordance with established procedures and adequate segregation of duties exists;
- ▶ payroll/personnel criteria for hiring employees, establishing compensation rates and authorizing disbursements are controlled and personnel and payroll are processing records and processing areas are restricted;
- ▶ purchase and disposition of fixed assets are controlled and recording of assets are made promptly in the subsidiary records;
- ▶ physical computer controls are in place and functioning;
- ▶ investments are adequately controlled and securities are safeguarded; and
- ▶ trust funds are established in accordance with SUAM guidelines.

SCOPE AND METHODOLOGY

The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, 1995-96 fiscal year was the primary period reviewed. In certain instances, we were concerned with representations of the most current data—in such cases, the test period was January 1997 to April 1997. Our primary focus was on internal controls. Specifically, we reviewed and tested:

INTRODUCTION

- ▶ procedures for receipting and storing cash, segregation of duties involving cash receipting and recording of cash receipts;
- ▶ establishment of receivables and adequate segregation of duties over the establishing of billing for and payment of receivables;
- ▶ approval of purchases, receiving procedures and reconciliation of expenditures to State Controller's balances;
- ▶ limitations on the size and types of revolving fund disbursements;
- ▶ use of petty cash funds, periodic cash counts, and reconciliation of bank accounts;
- ▶ authorization of personnel/payroll transactions and accumulation of leave credits in compliance with state policies;
- ▶ posting of the property ledger, monthly reconciliation of the property to the general ledger, and physical inventories;
- ▶ access restrictions to automated accounting systems and proper documentation of the systems;
- ▶ procedures for initiating, evaluating, and accounting for investments; and
- ▶ establishing of trust funds, separate accounting, adequate agreements, and annual budget.

We have not performed any auditing procedures beyond the date of our report. Accordingly, our comments are based on our knowledge as of that date and should be read with that understanding. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not discussed.

BACKGROUND

In 1983, the California Legislature passed the Financial Integrity and State Manager's Accountability Act of 1983 (FISMA). This act required that state agencies establish and maintain a system of internal accounting and administrative control. To ensure that the requirements are fully complied with, the head of each agency is required to prepare and submit a report on the adequacy of the system of internal accounting and administrative control following the end of each odd-numbered fiscal year. Prior to 1992, the California Department of Finance had conducted these reviews. However, due to staffing reductions they are no longer conducting such audits. The Office of the University Auditor of the CSU is now responsible for conducting the audits of internal accounting and administrative control within the CSU. This report represents our biennial review.

OPINION

We visited the Sonoma campus from May 5, 1997 through June 27, 1997 and audited the internal control structure in effect at that time.

In accordance with the Government Code Section 13402, et seq., state agency heads are responsible for establishing and maintaining systems of internal accounting control. The broad objectives of control systems for state agencies are to provide management with reasonable, but not absolute, assurance that:

- ▶ assets are safeguarded from unauthorized use or disposition; and
- ▶ transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial reports in accordance with the State Administrative Manual.

Because of inherent limitations in control systems, errors or irregularities may occur and not be detected. In addition, projection of any evaluation of systems to future periods is subject to risk since procedures may become inadequate as a result of changes in conditions, or the degree of compliance with the procedures may deteriorate. (See Appendix B, *Statement of Internal Controls*.)

Our audit disclosed certain conditions which, in our opinion, if not corrected could result in errors and irregularities. Specifically, the campus does not maintain adequate internal control over the following areas: cash receipting, revolving fund and cash disbursements. Other areas needing improvement are found in the Executive Summary.

EXECUTIVE SUMMARY

The purpose of this section is to provide management with an overview of conditions requiring their attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [] refer to page numbers in the report.

CASH RECEIPTS

SATELLITE CASHIERING [7]

Internal controls at the health center and music department were not adequate. Security/internal control over cash is increased when written records are maintained of who has access to safe facilities, cash receipts are transferred in a timely manner, restrictive endorsements are used timely, and separation of duties is adequate.

REMITTANCES [8]

Reports to the State Controller's Office (SCO) of remittances to the State Treasurer were not taking place in a timely manner. Timely submittal of remittances to the State Treasurer prevents the loss of interest earnings to revenue funds.

ACCOUNTS RECEIVABLE

TIMELY BILLINGS [9]

Campus billings to auxiliary organizations and off-campus groups for services rendered were not issued in a timely manner. Collecting accounts receivable in a timely manner increases working capital and limits the potential loss of revenue to the state.

REVOLVING FUND

RECONCILIATIONS [9]

Revolving fund reconciliations were not completed in a timely manner. This is a repeat finding from our prior FISMA audit. Timely preparation of revolving fund reconciliations assures fund accountability and reduces the risk of errors and irregularities going undetected.

PETTY CASH/CHANGE FUNDS [10]

Independent cash counts of the petty cash and change funds did not occur with the required frequency. Internal control over petty cash and change funds is strengthened when required independent cash counts occur on a timely basis.

CASH DISBURSEMENTS

BANK RECONCILIATIONS [11]

Bank reconciliations were not prepared in a timely manner or signed and dated by the preparer and reviewer. This is a repeat finding from our prior FISMA audit. The ability of the campus to detect errors and irregularities is increased when bank reconciliations are prepared and reviewed in a timely manner. **Subsequent to our fieldwork, the campus provided us with documentation indicating that bank reconciliations were being kept current.**

LONG OUTSTANDING CHECKS [11]

Checks outstanding for a period in excess of two years were not being cancelled and remitted to the state special deposit fund as unclaimed moneys. This is a repeat finding from our prior FISMA audit. Canceling and remitting long outstanding checks to the special deposit fund reduces both the possibility of misclassified amounts and the effort needed to account for these outstanding items on reconciliations.

FIXED ASSETS [12]

The campus had not taken a complete physical inventory and reconciled it to accounting records in the last three years. This is a repeat finding from our prior FISMA audit. Periodic inventories reduce the campus exposure to loss/misuse of fixed assets.

FISCAL INFORMATION TECHNOLOGY

DISASTER RECOVERY PLAN [13]

The campus did not have an information technology (IT) disaster recovery plan. A disaster recovery plan will help to assure continuity of computing operations for support of critical applications, produce the greatest benefit from remaining limited resources and achieve a systematic and orderly migration toward the resumption of all computing services.

PASSWORD SECURITY [13]

Current campus procedures do not provide for the periodic changing of passwords. Implementing computing controls requiring users to periodically change their passwords reduces the risk of violation of system and data security.

TRUST FUNDS [14]

Internal controls over the authorization/approval of trust funds were not adequate. This is a repeat finding from our prior FISMA audit. Strengthening controls over the authorization/approval process reduces the risk of loss or improper use of trust funds.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH RECEIPTS

SATELLITE CASHIERING

Internal controls at the health center and music department were not adequate.

Health Center

The health center did not maintain a written record of those who had access to the safe facility located in the pharmacy and when access had last changed. This is a repeat finding from our prior FISMA audit report.

Music Department

Cash receipts received in the music department were not transferred to the central cashier for bank deposit purposes in a timely manner.

Cash collected for instrument fees remained in the department up to four weeks before transfer to the central cashier. Depending on the time of the year cash collections of \$3000 could accumulate in the department.

Restrictive endorsements were not placed upon checks received in the music department. Checks were retained overnight for up to four weeks and were not restrictively endorsed until they were transferred to the university cashier.

The separation of duties in the cashiering function of the music department was not adequate. The same individual collects cash, prepares the bank deposits, and reconciles and posts the cash deposit reports from the central cashier to the department accounting records.

SAM §8024, §8030.1, §8034 and §8080 address the above areas. In addition, a written campus policy distributed to the departments required cash collections to be transferred to the university cashier upon receipt.

The pharmacist and health center director both indicated that they were unaware of the above requirement and believed the assets in the pharmacy were safe since access was limited. The music department secretary who performs the cashiering function indicated that she had not been provided with either a copy of the campus policy regarding the transfer of cash receipts or an endorsement stamp. She further indicated that the size of the department dictated the additional duties.

Security/internal control over cash is compromised when written records are not maintained of who has access to safe facilities, cash receipts are not transferred in a timely manner, restrictive endorsements are not used timely, and separation of duties is not adequate.

Recommendation 1

We recommend that the campus assure that all necessary controls are appropriately applied to all satellite cash collection centers.

Campus Response

SSU concurs. Memorandums have been issued to the responsible administrators at the locations cited in the report emphasizing established campus internal controls and procedures.

REMITTANCES

Reports to the State Controller's Office (SCO) of remittances to the State Treasurer were not taking place in a timely manner.

A review of reporting timeliness for the months of January 1997 through April 1997 indicated that cash collections exceeded \$100,000 and reports to the SCO were up to four weeks late.

SUAM §3823 requires remittances to be submitted to the State Treasurer at least monthly or when collections exceed \$100,000.

The university controller indicated that due to staff loss this task was assigned to another staff member who required a period of training along with her regular duties.

Not submitting reports on a timely basis results in lost interest to the special funds.

Recommendation 2

We recommend that the campus improve procedures to assure that reports to the State Controller's Office of deposits to the State Treasurer are submitted as required.

Campus Response

SSU concurs. Remittance advice documents to the State Controller's Office will be prepared and transmitted so that the SCO can accurately and timely classify deposited SSU revenues within the time frames established in the State University Administrative Manual (SUAM).

ACCOUNTS RECEIVABLE

TIMELY BILLINGS

Campus billings to auxiliary organizations and off-campus groups for services rendered were not issued in a timely manner.

During the 1995-96 year, there were five instances in which billings for utility and trash services were issued as much as four months late.

SAM §8776.3 requires invoices to be prepared as soon as possible after recognition of a claim.

The Accounts Receivable accountant indicated that the chargeback system used by Plant Operations was slow and subsequent billing information was consistently received late in accounts receivable.

Untimely billings decrease both working capital and investment earnings for the state.

Recommendation 3

We recommend that the campus strengthen existing procedures to ensure that billings to auxiliary organizations and off-campus groups for services are issued in a timely manner.

Campus Response

SSU concurs. It is now our policy to bill Auxiliaries and off-campus groups for services rendered within 45 days following the month in which services were rendered.

REVOLVING FUND

RECONCILIATIONS

Revolving fund reconciliations were not completed in a timely manner. This is a repeat finding from our prior FISMA audit.

At the time of our fieldwork, the last reconciliation completed by the campus covered the period June 1996 through January 31, 1997.

SAM §7900 requires monthly preparation of all reconciliations within 30 days of the preceding month.

The university controller indicated that changes in staffing and workload distribution contributed to the untimely reconciliations.

The timeliness of reconciliations affects the capability of the campus to detect errors and irregularities.

Recommendation 4

We recommend that the campus perform reconciliations of the revolving fund to the general checking account on a monthly basis.

Campus Response

SSU concurs. We have developed reporting tools to enable routine revolving fund reconciliations monthly with the general ledger.

PETTY CASH/CHANGE FUNDS

Independent cash counts of the petty cash and change funds did not occur with the required frequency.

Our review indicated that ten of the twenty-three petty cash/change funds were not counted timely.

SAM §8111.2 requires that an employee other than the custodian of the petty cash or change fund count each fund in accordance with the prescribed schedule.

The associate vice president, administration and finance, indicated that pressing work demands resulting from the bank reconciliation project, the continuation of the Generally Accepted Accounting Principles (GAAP) audit initiative and the transition to Financial Information Record Management System (FIRMS) coupled with the loss of staff due to budget reductions led to the campus devoting less energy to this particular function.

Internal control over petty cash and change funds is compromised when required independent cash counts do not occur on a timely basis.

Recommendation 5

We recommend that the campus assure timely independent cash counts of all petty cash and change funds.

Campus Response

SSU concurs. Independent verification of all campus change and petty cash funds will be accomplished within the time schedule prescribed by the State Administrative Manual (SAM).

CASH DISBURSEMENTS

BANK RECONCILIATIONS

Bank reconciliations were not prepared in a timely manner nor signed and dated by either the preparer and/or the reviewer. This is a repeat finding from our prior FISMA audit.

As of the end of our fieldwork, June 27, 1997, the campus had completed only one bank reconciliation for the year (August 1996). In addition, the reconciliation was not signed and dated by the preparer and reviewer.

SAM §8060 states that all bank and centralized State Treasury System accounts will be reconciled promptly at the end of each month. SAM §7908 requires all reconciliations to show the name of the preparer and reviewer including the date the reconciliation was prepared and reviewed.

The university controller indicated that the current campus Bursar system which feeds to FRS continues to present difficulties which does not allow for a timely and accurate reconciliation. The campus also provided evidence to us that a consultant had been hired to resolve this problem and that corrective efforts have been ongoing.

The timeliness of reconciliation affects the capacity of the campus to detect errors and irregularities. When formal reconciliations are not properly reviewed errors and defalcations can go undetected for extended periods of time.

Subsequent to our fieldwork, the campus provided us with documentation indicating that bank reconciliations were being kept current.

LONG OUTSTANDING CHECKS

Checks outstanding for a period in excess of two years were not being cancelled and remitted to the State Special Deposit Fund as unclaimed moneys. This is a repeat finding from our prior FISMA audit.

Campus accounting records indicated that, as of June 1997, there were 290 checks outstanding for more than two years in the amount of \$38,074.

SAM §8042 requires outstanding revolving fund checks over two years old to be canceled and the amount remitted to Special Deposit Fund as unclaimed moneys.

The associate vice president, administration and finance, indicated that pressing work demands resulting from the bank reconciliation project, the continuation of the GAAP audit initiative and the transition to FIRMS coupled with the loss of staff due to budget reductions led to the campus devoting less energy to this particular function.

Not cancelling and remitting long outstanding checks to the Special Deposit Fund results in misclassified amounts that may ultimately revert to the General Fund and requires additional effort to carry the outstanding items on reconciliations.

Recommendation 6

We recommend that the campus cancel and remit long outstanding checks to the Special Deposit Fund in a timely manner.

Campus Response

SSU concurs. Approximately 100 stop payment requests have been prepared, submitted, and acknowledged by the State Treasurer. Appropriate accounting entries and remittance transactions will be completed on or about January 31, 1998.

FIXED ASSETS

The campus had not taken a complete physical inventory and reconciled it to accounting records in the last three years. This is a repeat finding from our prior FISMA audit.

Records indicated that thirteen (13) of the 111 departments had not been inventoried within the past three years.

SAM §8652 requires departments to make a physical count of all property and reconcile the count with the accounting records at least once every three years.

The property manager indicated that the inventories were underway; however, completion was delayed because of reorganization changes.

The campus cannot assure that university assets are controlled and properly stated in the financial records.

Recommendation 7

We recommend that the campus assure a complete physical inventory of all property items occurs at least once every three years.

Campus Response

SSU concurs. A full three year cycle of property inventories were completed as of October 31, 1997. The campus will ensure that all accountable property is inventoried within the prescribed three year cycle.

FISCAL INFORMATION TECHNOLOGY

DISASTER RECOVERY PLAN

The campus did not have an information technology (IT) disaster recovery plan

Effective risk management requires the development and implementation of a disaster recovery plan.

Discussions with the Information Technology System software specialist indicated that emphasis in this area had been provided for back-up purposes and that development of a recovery plan had just begun.

Without a disaster recovery plan, the campus may not be able to assure continuity of computing operations for support of critical applications, produce the greatest benefit from remaining limited resources and achieve a systematic and orderly migration toward the resumption of all computing services.

Recommendation 8

We recommend that the campus develop and disseminate a written disaster recovery plan.

Campus Response

SSU concurs. A disaster recovery plan is currently in being developed by the campus' Information Technology (IT) division. A draft plan is targeted for completion by May 1, 1998 for presentation to senior management. A final plan is expected to be approved by July 1, 1998 with financial requirements requested in the FY 98/99 campus budget process.

PASSWORD SECURITY

Campus procedures did not provide for the periodic changing of passwords.

Our review indicated that the security system mechanism for prompting VAX account users to change their passwords was currently only once per year.

Computer database systems require that data integrity is maintained through various security checkpoints. One of these is the use of passwords. A common computing control for security of passwords is periodic system prompts directing users to change their passwords.

The Information Technology Systems software specialist indicated that the annual notification for prompting VAX account users to change their passwords was a campus policy that had been in existence for many years.

The campus risks violation of system and data security by not ensuring that passwords are periodically changed.

Recommendation 9

We recommend that the campus strengthen procedures to assure that user passwords are changed on a more frequent basis.

Campus Response

SSU concurs. A process is in place currently to develop and enhance password changes at all levels for users and system software administrators. These policies will be developed by IT staff, campus user groups and the IT Advisory committee. Policy changes are expected to be implemented during January 1998.

TRUST FUNDS

Internal controls over the authorization/approval of trust funds were not adequate. This is a repeat finding from our prior FISMA audit.

We found that:

- ▶ Seven of the eighteen (39%) trust expenditures in our sample selection were approved by individuals not included on the trust agreement documentation as authorized signators for disbursements.
- ▶ In two of these seven instances, staff logged onto the electronic purchasing system authorized/approved trust fund expenditures even though they were not included on the trust agreement documents.

SAM §19440.1 requires trust accounts to be supported by documentation indicating persons authorized to withdraw or expend funds and specimen signatures.

The university controller indicated that a new trust agreement document had just been implemented and all of the older trust files had not been reviewed and updated. The purchasing officer also indicated that the electronic purchasing system had no built-in preventative mechanism for trust expenditures.

Inadequate controls over the authorization/approval process increases the risk of improper use of trust account monies.

Recommendation 10

We recommend that the campus update all trust project documentation and improve procedures to assure that disbursement authorizations are properly verified for the expenditure of trust funds.

Campus Response

SSU concurs. A comprehensive review of SSU's approximately 100 trust accounts is underway to update (or obtain) the trust agreement for current signatories.

The expenditure and purchasing units have been instructed to verify signature or electronic user to trust documents to ensure that individual requesting action is authorized to do so.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Ruben Arminana	President
Vilma Arias	Accounting Supervisor
Sharon Cates	Pharmacist
Jean Coakley	Accountant
Leticia Coate	University Controller
Carole Cristani	Fiscal Operations Coordinator, Housing
Laurence Furukawa-Schlereth	Vice President for Administration and Finance
Gerri Harvey	Accounting Technician
William Ingles	Treasurer, Financial Services
Niki Jorgensen	Health Services Assistant
Marilyn Kamp	Supervisor, Library Circulation
Ruth McDonnell	Purchasing Officer
Jerry Norris	Property Manager
Yolanda Nunez	Director, Assessments and Special Projects
Gloria Off	Senior Director, Administration And Finance
Mary Rogers	Department Secretary, Music Department
Paul Santini	Associate Controller
Georgia Schwartz	Medical Director, Student Health Center
Lou Ann Seamans	Assistant Director, IMS and Information Technology
Steven Wilson	Associate Vice President, Administration and Finance
Mary Wood	Director, Compensation and Human Services
Beverly Yahn	Registrar, Extended Education
Jack Ziegler	Systems Software Specialist

APPENDIX B
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STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

Internal accounting and related operational controls established by the State of California, the CSU Board of Trustees, and the Office of the Chancellor are evaluated by the University Auditor, in compliance with professional standards for the conduct of internal audits, to determine if an adequate system of internal control exists and is effective for the purposes intended. Any deficiencies observed are brought to the attention of appropriate management for corrective action.

B. INTERNAL CONTROL DEFINITION

Internal control, in the broad sense, includes controls which may be characterized as either accounting or operational as follows:

1. Internal Accounting Controls

Internal accounting controls comprise the plan of organization and all methods and procedures that are concerned mainly with, and relate directly to, the safeguarding of assets and the reliability of financial records. They generally include such controls as the systems of authorization and approval, separation of duties concerned with record keeping and accounting reports from those concerned with operations or asset custody, physical controls over assets, and personnel of a quality commensurate with responsibilities.

2. Operational Controls

Operational controls comprise the plan of organization and all methods and procedures that are concerned mainly with operational efficiency and adherence to managerial policies and usually relate only indirectly to the financial records.

C. INTERNAL CONTROL OBJECTIVES

The objective of internal accounting and related operational control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting and operational control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgment by management.

D. INTERNAL CONTROL SYSTEMS LIMITATIONS

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting and related operational control. In the performance of most control procedures, errors can result from misunderstanding of instruction, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the executing and recording of transactions. Moreover, projection of any evaluation of internal accounting and operational control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate. It is with these understandings that internal audit reports are presented to management for review and use.